

Abstract

This work reviews the topic of international financial linkages, including theoretical definitions and the main methodological approaches of the empirical measurement based on vector autoregressive models. One of the approaches, the Spillover Index methodology based on Diebold & Yilmaz (2009), is then used to analyze the developments of financial linkages of the Japanese stock market in the period from 1995 to 2012. The attention is paid both to the relations with western developed economies and within the region of East Asia. The main contribution of this paper is the fact that it comprises a complete review of international relations of Japanese stock market during the era of unprecedented financial liberalization. The results of the empirical study confirm the opening of Japanese stock markets towards foreign influence. Even though USA have been the major driving force behind the movements in East Asian stock markets, Japan has become a significant regional player, whose influence on East Asian countries has been growing. The developments in the Japanese stock market are on the other hand driven solely by the western developed countries, which further supports the view of Japan as the regional financial leader.